

ORIGINAL

OPEN MEETING ITEM

1/14-15/20



0000200489

COMMISSIONERS
Robert "Bob" Burns - Chairman
Boyd Dunn
Sandra D. Kennedy
Justin Olson
Lea Márquez Peterson



ARIZONA CORPORATION COMMISSION

Matthew J. Neubert
Executive Director

Mark Dinell
Securities Division Director

MEMORANDUM

TO: Robert "Bob" Burns - Chairman
Boyd Dunn
Sandra D. Kennedy
Justin Olson
Lea Márquez Peterson

Arizona Corporation Commission

DOCKETED

DEC 31 2019

FROM: Mark Dinell
Director of Securities

DOCKETED BY

DATE: 12/30/19

RE: Order to Cease and Desist, Order for Restitution, Order for Administrative Penalties and Consent to Same by Respondents, Docket No. S-21082A-19-0222

CC: Matthew J. Neubert, Executive Director

Please find attached a proposed Order to Cease and Desist, Order for Restitution, Order for Administrative Penalties and Consent to Same ("Consent Order") by Respondents Kerease Margita Gillman and Timothy Gillman.

From November 2008 to March 2011, Kerease Margita Gillman ("Gillman") violated the Securities Act by selling securities that were not registered pursuant to Articles 6 or 7 of the Securities Act while Gillman was not registered as a dealer or salesman pursuant to Article 9 of the Securities Act. The investments sold by Gillman were securities in the form of investment contracts that entitled purchasers to ownership shares of three limited liability companies, 2009 Arizona Acquisitions LLC, 2010 Arizona Acquisitions LLC, and 2011 Arizona Acquisitions LLC. Gillman raised \$315,000 by selling 20 of these securities to investors in Arizona and other states.

The proposed Consent Order finds that the investment contracts sold by Gillman were securities, that they were neither registered nor exempt from registration in violation of A.R.S. § 44-1841, and that Gillman was not registered with the Commission as dealer or salesman nor exempt from registration in violation of A.R.S. § 44-1842. The proposed Consent Order also finds that Gillman violated A.R.S. § 44-1991 by failing to disclose that she would pay herself more than \$200,000 to perform services for the investment entities, failing to disclose that she would use investor money to pay for her own personal expenses, misrepresenting the operational cost of

the investment entities, and misrepresenting that she would distribute the proceeds of the investment to the investors after five years.

The proposed Consent Order requires Gillman to permanently cease and desist from violating the Securities Act, to pay restitution totaling \$315,000, and to pay an administrative penalty in the amount of \$50,000. The proposed Consent Order also structures the payment of restitution to ensure that the proceeds of the sale of real property currently owned by an investment entity will be distributed pro rata to the specific investors in that entity.

Gillman's husband, Timothy Gillman, is also a party to the proposed Consent Order. Timothy Gillman is included in the Consent Order only for his interest in the community property that may be used to satisfy the restitution and administrative penalties included in the Consent Order. Both Kerease and Timothy Gillman have voluntarily entered the proposed Consent Order and have declined to request a hearing on the alleged violations.

The Securities Division recommends the Order as appropriate, in the public interest, and necessary for the protection of investors.

Originator: Mitchell Allee

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 ROBERT "BOB" BURNS - Chairman
4 BOYD DUNN
5 SANDRA D. KENNEDY
6 JUSTIN OLSON
LEA MÁRQUEZ PETERSON

7 In the matter of:)

8 Kerease Gillman a/k/a Kerease)
9 Margita (d/b/a Southwest Bookkeeping)
10 Service), and Timothy Gillman, wife and)
husband,)

11 Respondents.)

DOCKET NO. S-21082A-19-0222

12 DECISION NO. _____

13 **ORDER TO CEASE AND DESIST, ORDER**
14 **FOR RESTITUTION, ORDER FOR**
ADMINISTRATIVE PENALTIES AND
CONSENT TO SAME
BY: RESPONDENTS KEREASE GILLMAN
AND TIMOTHY GILLMAN

15 Respondents Kerease Gillman and Timothy Gillman ("Respondents") elect to permanently
16 waive any right to a hearing and appeal under Articles 11 and 12 of the Securities Act of Arizona,
17 A.R.S. § 44-1801 *et seq.* ("Securities Act") with respect to this Order to Cease and Desist, Order for
18 Restitution, Order for Administrative Penalties, and Consent to Same ("Order"). Respondents admit
19 the jurisdiction of the Arizona Corporation Commission ("Commission"); admit the Findings of Fact
20 and Conclusions of Law contained in this Order; and consent to the entry of this Order by the
21 Commission.

22 **I.**

23 **FINDINGS OF FACT**

24 1. At all times relevant, Kerease Gillman ("Gillman") was a resident of Arizona and has
25 not been registered with the Commission as a securities salesman or dealer.
26

1 2. Gillman is the sole manager for 2009 Arizona Acquisitions LLC ("2009AA"), 2010
2 Arizona Acquisitions, LLC ("2010AA"), and 2011 Arizona Acquisitions LLC ("2011AA").

3 3. 2009AA, 2010AA, and 2011AA are manager-managed limited liability companies
4 organized by Gillman under the laws of Arizona in April 2009, October 2010, and September 2011,
5 respectively.

6 4. From November 2008 to March 2011, Gillman used word-of-mouth referral, prior
7 business relationships, and the website aztaxlienspecialist.com to offer and sell securities in the form
8 of membership units in 2009AA, 2010AA, and 2011AA within or from the state of Arizona.

9 5. After purchasing membership units of 2009AA, 2010AA, and 2011AA for a
10 minimum investment of \$10,000, investors became members of the investment entities and were
11 entitled to pro-rata shares of the proceeds after five years.

12 6. In connection with the offer and sale of the membership units, Gillman told investors
13 that she would manage the investment entities and use their investment funds to purchase tax lien
14 certificates at auction and foreclose on the underlying properties to acquire title. Gillman represented
15 that she would dissolve each investment entity five years after it was formed and distribute the
16 properties and other proceeds held by the entity to the investors.

17 7. Gillman received a total of \$315,000 in investment money from sale of twenty
18 membership units of 2009AA, 2010AA, and 2011AA to eighteen investors. From November 2008
19 to April 2009, Gillman sold nine membership units in 2009AA for a combined total of \$167,000;
20 from January 2010 to April 2010, Gillman sold six membership units of 2010AA for a combined
21 total of \$80,000; and from January 2011 to March 2011, Gillman sold five membership units of
22 2011AA for a combined total of \$68,000.

23 8. At the time of purchasing the membership units, each investor signed a purchase
24 agreement and operating agreement (collectively the "Offering Documents") for the entity in which
25 they were investing. The Offering Documents were essentially identical, except for the date, the name
26 of the entity, the name of the investor, and the principal investment amount.

1 9. The Offering Documents gave Gillman the exclusive power to form and manage
2 2009AA, 2010AA, and 2011AA and left the investors no direct control over their investments.

3 10. The Offering Documents authorized Gillman to take an upfront payment of 5% of the
4 total investment amount in 2009AA, 2010AA, and 2011AA. The upfront payment would be offset
5 against a 25% share of the profits upon dissolution of the entities, giving the appearance to investors
6 that Gillman's entire compensation was contingent on her profitable management of the investments.

7 11. The Offering Documents also authorized Gillman to use investor funds to pay for
8 specified operational costs, including payment of \$50 per property to "Southwest Bookkeeping
9 Service" to maintain the records of 2009AA, 2010AA, and 2011AA.

10 12. Southwest Bookkeeping Service was a business alter-ego of Gillman, and Gillman
11 failed to disclose her relationship with Southwest Bookkeeping Service to investors.

12 13. As the owner/operator of Southwest Bookkeeping Service, Gillman's upfront
13 compensation was not limited to 5% of the investment capital and her total compensation was not
14 limited to 25% of the profits. Gillman received over \$200,000 from 2009AA, 2010AA, and 2011AA
15 without turning a profit for the investors.

16 14. Gillman's compensation from the operation of the 2009AA, 2010AA, and 2011AA
17 was not contingent on her profitable management of the investment entities as represented in the
18 Offering Documents, but rather her ability to increase accounting costs.

19 15. When offering and selling the membership units to investors, Gillman also falsely
20 represented how she would spend the money invested in 2009AA, 2010AA, and 2011AA.

21 16. The Offering Documents provided by Gillman informed investors that 2009AA,
22 2010AA, and 2011AA would pay \$50 per property for accounting services, but Gillman used investor
23 funds to pay Southwest Bookkeeping Service at least \$176,151 more than the \$50 per property
24 specifically authorized.

25 17. Gillman also used investor funds to pay for personal expenses unrelated to the operation
26 of the investment entities. Gillman represented that she would use investor funds to purchase tax liens

1 and did not disclose to the investors that she would take money from 2009AA, 2010AA, and 2011AA
2 to pay for her personal expenses.

3 18. In connection with the offer and sale of membership units in 2009AA, 2010AA, and
4 2011AA, Gillman falsely represented that she would dissolve the investment entities five years after
5 they were formed and distribute the proceeds to investors. Gillman failed to disclose that she had the
6 authority to unilaterally extend the life of 2009AA, 2010AA, and 2011AA for indefinite duration.

7 19. On or about January 4, 2016, Gillman, without the knowledge or consent of the
8 investors, converted 2009AA, 2010AA, and 2011AA into perpetual entities. None of the investors in
9 2009AA, 2010AA, or 2011AA have received any returns from their investment.

10 20. Respondent Timothy Gillman has been the spouse of Respondent Gillman since January
11 2015 and may be referred to as "Respondent Spouse." Respondent Spouse is joined in this action under
12 A.R.S. § 44-2031(C).

13 **II.**

14 **CONCLUSIONS OF LAW**

15 1. The Commission has jurisdiction over this matter pursuant to Article XV of the
16 Arizona Constitution and the Securities Act.

17 2. Respondent Gillman offered or sold securities within or from Arizona, within the
18 meaning of A.R.S. §§ 44-1801(16), 44-1801(22), and 44-1801(27).

19 3. Respondent Gillman violated A.R.S. § 44-1841 by offering or selling securities that
20 were neither registered nor exempt from registration.

21 4. Respondent Gillman violated A.R.S. § 44-1842 by offering or selling securities while
22 neither registered as a dealer or salesman nor exempt from registration.

23 5. Respondent Gillman violated A.R.S. § 44-1991 by making untrue statements or
24 misleading omissions of material facts.

25 6. Respondent Gillman's conduct is grounds for a cease and desist order pursuant to
26 A.R.S. § 44-2032.

7. Respondent Gillman's conduct is grounds for an order of restitution pursuant to A.R.S. § 44-2032.

8. Respondent Gillman's conduct is grounds for administrative penalties under A.R.S. § 44-2036.

III.

ORDER

THEREFORE, on the basis of the Findings of Fact, Conclusions of Law, and Respondents' consent to the entry of this Order, attached and incorporated by reference, the Commission finds that the following relief is appropriate, in the public interest, and necessary for the protection of investors:

IT IS ORDERED, pursuant to A.R.S. § 44-2032, that Respondent Gillman and any of Respondent Gillman's agents, employees, successors and assigns, permanently cease and desist from violating the Securities Act.

IT IS FURTHER ORDERED that Respondents comply with the attached Consent to Entry of Order.

IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that Respondent, Kerease Gillman, as her sole and separate obligation, and Respondents Kerease Gillman and Timothy Gillman, but only to the extent of the value of Kerease Gillman's contribution to the community property which would have been Kerease Gillman's separate property if single, shall pay restitution to the Commission in the principal amount of \$315,000 as a result of the conduct set forth in the Findings of Fact and Conclusions of Law. Payment is due in full on the date of this Order. Payment shall be made to the "State of Arizona" to be placed in an interest-bearing account controlled by the Commission. Any principal amount outstanding shall accrue interest at the rate of ten percent per annum from the date of purchase until the date of this order.

Respondents shall be entitled to set-offs for restitution paid to investors and verified by the Director. If Respondents claim any set-offs to the Order of Restitution, Respondents must prove the

1 value of any set-offs to the satisfaction of the Securities Division, including, but not limited to,
2 proving the fair-market value of any real property transferred to investors.

3 IT IS FURTHER ORDERED, that if Respondent Gillman sells any properties owned by
4 2009AA, all proceeds of the sale of any property owned by 2009AA shall be distributed to the nine
5 investors in 2009AA shown on the records of the Commission.

6 IT IS FURTHER ORDERED, that if Respondent Gillman sells any properties owned by
7 2010AA, all proceeds of the sale of any property owned by 2010AA shall be distributed to the six
8 investors in 2010AA shown on the records of the Commission.

9 IT IS FURTHER ORDERED that the restitution ordered in the preceding paragraphs will
10 accrue interest, as of the date of the Order, at the rate of the lesser of (i) ten percent per annum or (ii)
11 at a rate per annum that is equal to one per cent plus the prime rate as published by the board of
12 governors of the federal reserve system in statistical release H. 15 or any publication that may
13 supersede it on the date that the judgment is entered.

14 The Commission shall disburse the funds on a pro-rata basis to investors shown on the records
15 of the Commission. Any restitution funds that the Commission cannot disburse because an investor
16 refuses to accept such payment, or any restitution funds that cannot be disbursed to an investor
17 because the investor is deceased shall be disbursed on a pro-rata basis to the remaining investors
18 shown on the records of the Commission. Any funds that the Commission determines it is unable to
19 or cannot feasibly disburse shall be transferred to the general fund of the state of Arizona.

20 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that Respondent, Kerease
21 Gillman, as her sole and separate obligation, and Respondents, Kerease Gillman and Timothy
22 Gillman, but only to the extent of the value of Kerease Gillman's contribution to the community
23 property which would have been Kerease Gillman's separate property if single, shall pay an
24 administrative penalty in the amount of \$50,000 as a result of the conduct set forth in the Findings of
25 Fact and Conclusions of Law. Payment is due in full on the date of this Order. Payment shall be made
26 to the "State of Arizona." Any amount outstanding shall accrue interest as allowed by law.

1 IT IS FURTHER ORDERED that payments received by the state of Arizona shall first be
2 applied to the restitution obligation. Upon payment in full of the restitution obligation, payments
3 shall be applied to the penalty obligation.

4 For purposes of this Order, a bankruptcy filing by Respondents shall be an act of default. If
5 Respondents do not comply with this Order, any outstanding balance may be deemed in default and
6 shall be immediately due and payable.

7 IT IS FURTHER ORDERED, that if Respondents fail to comply with this order, the
8 Commission may bring further legal proceedings against Respondents, including application to the
9 superior court for an order of contempt.

10 ...

11 ...

12 ...

13 ...

14 ...

15 ...

16 ...

17 ...

18 ...

19 ...

20 ...

21 ...

22 ...

23 ...

24 ...

25 ...

26 ...

1 IT IS FURTHER ORDERED that this Order shall become effective immediately.

2 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

3
4
5 CHAIRMAN BURNS

COMMISSIONER DUNN

COMMISSIONER KENNEDY

6
7
8 COMMISSIONER OLSON

COMMISSIONER MÁRQUEZ PETERSON

9
10 IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT,
11 Executive Director of the Arizona Corporation Commission,
12 have hereunto set my hand and caused the official seal of the
13 Commission to be affixed at the Capitol, in the City of Phoenix,
14 this _____ day of _____, 2020.

15 _____
16 MATTHEW J. NEUBERT
17 EXECUTIVE DIRECTOR

18 _____
19 DISSENT

20 _____
21 DISSENT

22 This document is available in alternative formats by contacting Kacie Cannon, ADA Coordinator,
23 voice phone number (602) 542-3931, e-mail kcannon@azcc.gov.

24 (MWA)
25
26

CONSENT TO ENTRY OF ORDER

1
2 1. Respondents admit the jurisdiction of the Commission over the subject matter of this
3 proceeding. Respondents acknowledge that Respondents have been fully advised of Respondents'
4 right to a hearing to present evidence and call witnesses and Respondents knowingly and voluntarily
5 waive any and all rights to a hearing before the Commission and all other rights otherwise available
6 under Article 11 of the Securities Act and Title 14 of the Arizona Administrative Code. Respondents
7 acknowledge that this Order to Cease and Desist, Order for Restitution, Order for Administrative
8 Penalties, and Consent to Same ("Order") constitutes a valid final order of the Commission.

9 2. Respondents knowingly and voluntarily waive any right under Article 12 of the
10 Securities Act to judicial review by any court by way of suit, appeal, or extraordinary relief resulting
11 from the entry of this Order.

12 3. Respondents acknowledge and agree that this Order is entered into freely and
13 voluntarily and that no promise was made or coercion used to induce such entry.

14 4. Respondent Gillman and Respondent Spouse understand and acknowledge that they
15 have a right to seek counsel regarding this Order and that they have had the opportunity to seek
16 counsel prior to signing this Order. Respondents acknowledge and agree that, despite the foregoing,
17 Respondents freely and voluntarily waive any and all right to consult or obtain counsel prior to
18 signing this Order.

19 5. Respondents admit the Findings of Fact and Conclusions of Law contained in this
20 Order, and by consenting to the entry of this Order, Respondents agree not to take any action or to
21 make, or permit to be made, any public statement denying, directly or indirectly, any Finding of Fact
22 or Conclusion of Law in this Order or creating the impression that this Order is without factual basis.

23 6. Respondents further agree that they shall not deny or contest the Findings of Fact and
24 Conclusions of Law contained in this Order in any present or future: (a) bankruptcy proceeding, or
25 (b) non-criminal proceeding in which the Commission is a party (collectively, "proceeding(s)").
26 They further agree that in any such proceedings, the Findings of Fact and Conclusions of Law

1 contained in this Order may be taken as true and correct and that this Order shall collaterally estop
2 them from re-litigating with the Commission or any other state agency, in any forum, the accuracy
3 of the Findings of Fact and Conclusions of Law contained in this Order. In the event Respondent
4 Kerease Gillman and/or Respondent Spouse pursues bankruptcy protection in the future, they further
5 agree that in such bankruptcy proceeding, pursuant to 11 U.S.C. § 523(a)(19), the following
6 circumstances exist:

7 A. The obligations incurred as a result of this Order are a result of the conduct set forth
8 in the Findings of Fact and Conclusions of Law in the Order and are for the violation of Arizona
9 state securities laws, pursuant to 11 U.S.C. § 523(a)(19)(A)(i);

10 B. This Order constitutes a judgment, order, consent order, or decree entered in a state
11 proceeding pursuant to 11 U.S.C. § 523(a)(19)(B)(i), a settlement agreement entered into by
12 Respondent Kerease Gillman and Respondent Spouse pursuant to 11 U.S.C. § 523(a)(19)(B)(ii), and
13 a court order for damages, fine, penalty, citation, restitution payment, disgorgement payment,
14 attorney fee, cost or other payment owed by Respondent Kerease Gillman and Respondent Spouse
15 pursuant to 11 U.S.C. § 523(a)(19)(B)(iii).

16 7. While this Order settles this administrative matter between Respondents and the
17 Commission, Respondents understand that this Order does not preclude the Commission from
18 instituting other administrative or civil proceedings based on violations that are not addressed by this
19 Order.

20 8. Respondents understand that this Order does not preclude the Commission from
21 referring this matter to any governmental agency for administrative, civil, or criminal proceedings
22 that may be related to the matters addressed by this Order.

23 9. Respondents understand that this Order does not preclude any other agency or officer
24 of the state of Arizona or its subdivisions from instituting administrative, civil, or criminal
25 proceedings that may be related to matters addressed by this Order.

1 10. Respondent Gillman agrees that she will not apply to the state of Arizona for
2 registration as a securities dealer or salesman or for licensure as an investment adviser or investment
3 adviser representative until such time as all restitution and penalties under this Order are paid in full.

4 11. Respondent Gillman agrees that she will not exercise any control over any entity that
5 offers or sells securities or provides investment advisory services within or from Arizona until such
6 time as all restitution and penalties under this Order are paid in full.

7 12. Respondent Kerease Gillman and Respondent Gillman's spouse, Timothy Gillman,
8 acknowledge that any restitution or penalties imposed by this Order are premarital debts and the sole
9 and separate obligations of Respondent Kerease Gillman.

10 13. Respondents consent to the entry of this Order and agree to be fully bound by its terms
11 and conditions.

12 14. Respondents acknowledge and understand that if Respondents fail to comply with the
13 provisions of the order and this consent, the Commission may bring further legal proceedings against
14 Respondents, including application to the superior court for an order of contempt.

15 15. Respondents understand that default shall render Respondents liable to the
16 Commission for its costs of collection, including reasonable attorneys' fees and interest at the
17 maximum legal rate.

18 16. Respondents agree and understand that if Respondents fail to make any payment as
19 required in the Order, any outstanding balance shall be in default and shall be immediately due and
20 payable without notice or demand. Respondents agree and understand that acceptance of any partial
21 or late payment by the Commission is not a waiver of default by the Commission.

22 ...

23 ...

24 ...

25 ...

26 ...

Kerease Gillman
Kerease Gillman
Timothy Gillman
Timothy Gillman

STATE OF NEW MEXICO)
ARIZONA) ss
County of Valencia)

SUBSCRIBED AND SWORN TO BEFORE me this 7 day of Dec 2019.

Rhonda Meadors
NOTARY PUBLIC
Rhonda Meadors

My commission expires:
7-18-23



1 SERVICE LIST FOR: In re: KEREASE GILLMAN *et al.*, DOCKET NO. S-21082A-19-0222
2 Kerease Gillman
3 16 Farmers Way
4 Datil, New Mexico 87821
5 Timothy Gillman
6 16 Farmers Way
7 Datil, New Mexico 87821
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 ROBERT "BOB" BURNS - Chairman
4 BOYD DUNN
5 SANDRA D. KENNEDY
6 JUSTIN OLSON
7 LEA MÁRQUEZ PETERSON

8 In the matter of:

9 Kerease Gillman a/k/a Kerease Margita (d/b/a
10 Southwest Bookkeeping Service), and Timothy
11 Gillman, wife and husband,

12 Respondents.

) DOCKET NO. S-21082A-19-0222

) **CERTIFICATION OF SERVICE OF**
) **PROPOSED OPEN MEETING AGENDA**
) **ITEM**

13 On this 30th day of December 2019, the foregoing document was filed with Docket
14 Control as a Securities Division Memorandum and Proposed Order, and copies of the foregoing
15 were mailed on behalf of the Securities Division to the following who have not consented to email
16 service.

17 Kerease Gillman
18 16 Farmers Way
19 Datil, NM 87821
20 *Respondent*

21 Timothy Gillman
22 16 Farmers Way
23 Datil, NM 87821
24 *Respondent*

25 By:

26 
Emie R. Bridges, Executive Assistant